Altisource Portfolio Solutions S.A.
Form 10-Q
October 26, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 1-34354

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
(Exact name of Registrant as specified in its Charter)

Luxembourg	98-0554932
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

40, avenue Monterey
L-2163 Luxembourg
Grand Duchy of Luxembourg
(Address of principal executive offices) (Zip Code)

(352) 24 69 79 00
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided by Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of October 20, 2017, there were 17,904,739 outstanding shares of the registrant’s shares of beneficial interest (excluding 7,508,009 shares held as treasury stock).

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

FORM 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 114,123	$ 149,294
Available for sale securities	46,044	45,754
Accounts receivable, net	63,177	87,821
Prepaid expenses and other current assets	59,880	42,608
Total current assets	283,224	325,477
Premises and equipment, net	80,823	103,473
Goodwill	86,283	86,283
Intangible assets, net	128,289	155,432
Deferred tax assets, net	7,214	7,292
Other assets	10,568	11,255
Total assets	$ 596,401	$ 689,212
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 83,352	$ 83,135
Accrued litigation settlement	—	32,000
Current portion of long-term debt	5,945	5,945
Deferred revenue	9,746	8,797
Other current liabilities	10,982	19,061
Total current liabilities	110,025	148,938
Long-term debt, less current portion	414,431	467,600
Other non-current liabilities	7,796	10,480
Commitments, contingencies and regulatory matters (Note 20)		
Equity:		
Common stock ($1.00 par value; 100,000 shares authorized, 25,413 issued and 17,905 outstanding as of September 30, 2017; 25,413 shares authorized and issued and 18,774 outstanding as of December 31, 2016)	25,413	25,413
Additional paid-in capital	111,457	107,288
Retained earnings	342,111	333,786
Accumulated other comprehensive loss	(1,533)	(1,745)
Treasury stock, at cost (7,508 shares as of September 30, 2017 and 6,639 shares as of December 31, 2016)	(414,668)	(403,953)

Altisource equity	62,780	60,789
Non-controlling interests	1,369	1,405
Total equity	64,149	62,194
Total liabilities and equity	$ 596,401	$ 689,212

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	$234,979	$252,745	$726,147	$758,676
Cost of revenue	174,898	174,002	538,244	517,236
Gross profit	60,081	78,743	187,903	241,440
Selling, general and administrative expenses	46,622	53,886	146,793	161,709
Income from operations	13,459	24,857	41,110	79,731
Other income (expense), net:				
Interest expense	(5,599)	(5,952)	(16,862)	(18,481)
Other income (expense), net	2,497	(109)	8,015	2,608
Total other income (expense), net	(3,102)	(6,061)	(8,847)	(15,873)
Income before income taxes and non-controlling interests	10,357	18,796	32,263	63,858
Income tax provision	(2,591)	(7,324)	(7,615)	(12,808)
Net income	7,766	11,472	24,648	51,050
Net income attributable to non-controlling interests	(805)	(883)	(2,107)	(1,973)
Net income attributable to Altisource	$6,961	$10,589	$22,541	$49,077
Earnings per share:				
Basic	$0.39	$0.57	$1.23	$2.63
Diluted	$0.38	$0.54	$1.20	$2.49
Weighted average shares outstanding:				
Basic	18,023	18,715	18,337	18,669
Diluted	18,429	19,568	18,854	19,738
Comprehensive income:				
Net income	$7,766	$11,472	$24,648	$51,050
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities, net of income tax benefit (provision) of $2,054, $(2,070), $(78), $889, respectively	(5,530)	5,016	212	(2,156)
Comprehensive income, net of tax	2,236	16,488	24,860	48,894
Comprehensive income attributable to non-controlling interests	(805)	(883)	(2,107)	(1,973)
Comprehensive income attributable to Altisource	$1,431	$15,605	$22,753	$46,921

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

	Altisource Equity							
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Non-controlling interests	Total
	Shares							
Balance, December 31, 2015	25,413	$25,413	$96,321	$369,270	$ —	$(440,026)	$ 1,292	$52,270
Comprehensive income:								
Net income	—	—	—	49,077	—	—	1,973	51,050
Other comprehensive loss, net of tax	—	—	—	—	(2,156)	—	—	(2,156)
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,637)	(1,637)
Share-based compensation expense	—	—	4,692	—	—	—	—	4,692
Exercise of stock options and issuance of restricted shares	—	—	—	(58,912)	—	67,788	—	8,876
Repurchase of shares	—	—	—	—	—	(34,321)	—	(34,321)
Balance, September 30, 2016	25,413	$25,413	$101,013	$359,435	$ (2,156)	$(406,559)	$ 1,628	$78,774
Balance, December 31, 2016	25,413	$25,413	$107,288	$333,786	$ (1,745)	$(403,953)	$ 1,405	$62,194
Comprehensive income:								
Net income	—	—	—	22,541	—	—	2,107	24,648
Other comprehensive income, net of tax	—	—	—	—	212	—	—	212
Distributions to non-controlling interest holders	—	—	—	—	—	—	(2,143)	(2,143)
Share-based compensation expense	—	—	3,237	—	—	—	—	3,237
Cumulative effect of an accounting change (Note 1)	—	—	932	(932)	—	—	—	—
Exercise of stock options and issuance of restricted shares	—	—	—	(11,787)	—	13,871	—	2,084
Treasury shares withheld for the payment of tax on restricted share issuances	—	—	—	(1,497)	—	409	—	(1,088)

Repurchase of shares	—	—	—	—	—	(24,995)	—	(24,995)
Balance, September 30, 2017	25,413	$25,413	$111,457	$342,111	$ (1,533)	$(414,668)	$ 1,369	$64,149

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows from operating activities:		
Net income	$24,648	$51,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,411	27,521
Amortization of intangible assets	27,143	36,432
Change in the fair value of acquisition related contingent consideration	24	(1,174)
Share-based compensation expense	3,237	4,692
Bad debt expense	3,101	763
Gain on early extinguishment of debt	(5,419)	(5,464)
Amortization of debt discount	225	307
Amortization of debt issuance costs	625	850
Deferred income taxes	—	17
Loss on disposal of fixed assets	2,776	30
Changes in operating assets and liabilities:		
Accounts receivable	21,543	3,505
Prepaid expenses and other current assets	(17,272)	(10,167)
Other assets	760	496
Accounts payable and accrued expenses	165	7,005
Other current and non-current liabilities	(41,838)	(9,828)
Net cash provided by operating activities	47,129	106,035
Cash flows from investing activities:		
Additions to premises and equipment	(7,485)	(16,525)
Acquisition of businesses, net of cash acquired	—	(9,617)
Purchase of available for sale securities	—	(48,219)
Change in restricted cash	(73)	—
Other investing activities	—	266
Net cash used in investing activities	(7,558)	(74,095)
Cash flows from financing activities:		
Repayment and repurchases of long-term debt	(48,600)	(49,237)
Proceeds from stock option exercises	2,084	8,876
Purchase of treasury shares	(24,995)	(34,321)
Distributions to non-controlling interests	(2,143)	(1,637)
Payment of tax withholding on issuance of restricted shares	(1,088)	—
Net cash used in financing activities	(74,742)	(76,319)
Net decrease in cash and cash equivalents	(35,171)	(44,379)
Cash and cash equivalents at the beginning of the period	149,294	179,327
Cash and cash equivalents at the end of the period	$114,123	$134,948

Supplemental cash flow information:		
Interest paid	$16,203	$17,244
Income taxes paid, net	15,445	14,178
Non-cash investing and financing activities:		
Increase in payables for purchases of premises and equipment	$52	$2,458

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements
NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION
Description of Business
Altisource Portfolio Solutions S.A., together with its subsidiaries (which may be referred to as "Altisource," the "Company," "we," "us" or "our"), is an integrated service provider and marketplace for the real estate and mortgage industries. Combining operational excellence with a suite of innovative services and technologies, Altisource helps solve the demands of the ever-changing market.
Altisource Portfolio Solutions S.A. is organized under the laws of Luxembourg and is publicly traded on the NASDAQ Global Select Market under the symbol "ASPS."
Basis of Accounting and Presentation
The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the interim data includes all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented. The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our interim condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Intercompany transactions and accounts have been eliminated in consolidation.
Effective January 1, 2017, our reportable segments changed as a result of changes in our internal organization, which changed the way our Chief Executive Officer (our chief operating decision maker) manages our businesses, allocates resources and evaluates performance. We now report our operations through two new reportable segments: Mortgage Market and Real Estate Market. In addition, we report Other Businesses, Corporate and Eliminations separately. Prior to the January 1, 2017 change in reportable segments, our reportable segments were Mortgage Services, Financial Services and Technology Services. Prior year comparable period segment disclosures have been restated to conform to the current year presentation. See Note 21 for a description of our business segments.
Altisource consolidates Best Partners Mortgage Cooperative, Inc., which is managed by The Mortgage Partnership of America, L.L.C. ("MPA"), a wholly-owned subsidiary of Altisource. Best Partners Mortgage Cooperative, Inc. is a mortgage cooperative doing business as Lenders One® ("Lenders One"). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025 (with renewals for three successive five-year periods at MPA's option).
The management agreement between MPA and Lenders One, pursuant to which MPA is the management company, represents a variable interest in a variable interest entity. MPA is the primary beneficiary of Lenders One as it has the power to direct the activities that most significantly impact the cooperative's economic performance and the right to receive benefits from the cooperative. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis and the interests of the members are reflected as non-controlling interests. As of September 30, 2017, Lenders One had total assets of $4.6 million and total liabilities of $2.0 million. As of December 31, 2016, Lenders One had total assets of $3.8 million and total liabilities of $1.5 million.
These interim condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on February 16, 2017.
Fair Value Measurements
Fair value is defined as an exit price, representing the amount that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 — Quoted prices in active markets for identical assets and liabilities
Level 2 — Observable inputs other than quoted prices included in Level 1
Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities

Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Recently Adopted Accounting Pronouncement

The Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, became effective on January 1, 2017. This standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The standard requires companies to recognize all award-related excess tax benefits and tax deficiencies in the income statement, classify any excess tax benefits as an operating activity in the statement of cash flows, limit tax withholding up to the maximum statutory tax rates in order to continue to apply equity accounting rules and classify cash paid by employers when directly withholding shares for tax withholding purposes as an investing activity in the statement of cash flows. The standard also provides companies with the option of estimating forfeitures or recognizing forfeitures as they occur. In connection with the adoption of this standard, the Company made an accounting policy election to account for forfeitures in compensation expense as they occur, rather than continuing to apply the Company's previous policy of estimating forfeitures. This policy election resulted in a cumulative effect adjustment of $0.9 million to retained earnings and additional paid-in capital as of January 1, 2017 using the modified retrospective transition method. There were no other significant impacts of the adoption of this standard on the Company's results of operations and financial position.

Future Adoption of New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of this new standard is an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company plans to adopt ASU No. 2014-09 retrospectively with the cumulative effect of initially applying the new standard recognized on the date of the initial application. The new standard will be effective for the Company on January 1, 2018. Based on the Company's analysis of all sources of revenue from customers for the nine months ended September 30, 2017, the Company estimates that less than 3% of consolidated revenue, primarily related to software development professional services, would likely be deferred and recognized over future periods under the new standard. The Company will continue to analyze the impact of this guidance and refine the estimated impact on its results of operations and financial position.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard will require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The standard also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. It also amends certain financial statement presentation and disclosure requirements associated with the fair value of financial instruments. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. Based on the Company's analysis of this guidance, upon adoption of ASU No. 2016-01 the Company will reflect changes in the fair value of its available for sale securities in income. These changes in fair value are currently reflected in other comprehensive income. The Company will adopt ASU No. 2016-01 with a cumulative effect adjustment to the balance sheet as of the beginning of the year of adoption. The Company currently has one investment that will be impacted by this standard, its investment in Altisource Residential Corporation ("RESI") (see Note 4). As of September 30, 2017 and December 31, 2016, the unrealized loss in accumulated other comprehensive loss related to the RESI investment was $1.5 million and $1.7 million, respectively.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard introduces a new lessee model that brings substantially all leases on the balance sheet. The standard will require companies to recognize lease assets and lease liabilities on their balance sheets and disclose key information about leasing arrangements in their financial statements. This standard will be effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period. Early application of this standard is permitted. The Company is currently evaluating the impact of this guidance on its results of operations and financial position. Based on the Company's preliminary analysis of its lease arrangements as of September 30, 2017 where the Company is a lessee, less than $25.0 million, primarily related to office leases, would be recorded as right-of-use assets and

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lease liabilities on the Company's balance sheet under the new standard. The Company will continue to analyze the impact of this guidance and refine the estimated impact on its results of operations and financial position.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This standard clarifies guidance on principal versus agent considerations in connection with revenue recognition. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position in connection with its adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as described above.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This standard provides guidance on identifying performance obligations in a contract with a customer and clarifying several licensing considerations, including whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time) and guidance on sales-based and usage-based royalties. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position in connection with its adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as described above.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This standard addresses collectability, sales taxes and other similar taxes collected from customers, non-cash consideration, contract modifications at transition and completed contracts at transition. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position in connection with its adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as described above.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This standard addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its statement of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This standard will require that companies recognize the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs. Current guidance prohibits companies from recognizing current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This standard will require that companies include restricted cash and restricted cash equivalents in their cash and cash equivalent balances in the statement of cash flows. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its statement of cash flows. As of September 30, 2017 and December 31, 2016, restricted cash was $4.2 million and $4.1 million, respectively.

In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The FASB issued 13 technical corrections and improvements to ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), including providing optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue. The amendments in this standard also expand the information that is required to be disclosed when an entity applies one of the optional exemptions. This standard will be effective for annual periods beginning after December 15, 2017, including interim

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periods within that reporting period. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position in connection with its adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as described above.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This standard clarifies the definition of a business and provides a screen to determine if a set of inputs, processes and outputs is a business. The screen requires that when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the assets acquired would not be a business. Under the new guidance, in order to be considered a business, an acquisition must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. In addition, the standard narrows the definition of the term "output" so that it is consistent with how it is described in ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This standard will simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Current guidance requires that companies compute the implied fair value of goodwill under Step 2 by performing procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. This standard will require companies to perform annual or interim goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This standard will be effective for annual periods beginning after December 15, 2019, including interim periods within that reporting period, and will be applied prospectively. Early adoption of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This standard was issued to clarify the scope of Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20 provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company currently does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. This standard provides guidance about which changes to the terms or conditions of a share-based payment award require the application of modification accounting. This standard will require companies to continue to apply modification accounting, unless the fair value, vesting conditions and classification of an award all do not change as a result of the modification. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this standard better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedging results. This standard will be effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period. Early application is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 2 — CUSTOMER CONCENTRATION
Ocwen Financial Corporation (“Ocwen”) is our largest customer. Ocwen purchases certain mortgage services and technology services from us under the terms of master services agreements and amendments thereto (collectively, the “Ocwen Service Agreements”) with terms extending through August 2025. Certain of the Ocwen Service Agreements, among other things, contain a “most favored nation” provision and also grant the parties the right to renegotiate pricing. Certain of the Ocwen Service Agreements also prohibit Ocwen from establishing fee-based businesses that would directly or indirectly compete with Altisource’s services with respect to the Homeward Residential, Inc. and Residential Capital, LLC servicing portfolios acquired by Ocwen in December 2012 and February 2013, respectively. In addition, Ocwen purchases certain origination services from Altisource under an agreement that continues until January 23, 2019, but which is subject to a 90 day termination right by Ocwen.
Ocwen has disclosed that on July 23, 2017 it entered into a master agreement and a transfer agreement with New Residential Investment Corp. (individually, together with one or more of its subsidiaries, or one or more of its subsidiaries individually, “NRZ”) to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen’s remaining interests in Ocwen’s non-government-sponsored enterprise (“non-GSE”) mortgage servicing rights (“MSRs”) and subservicing relating to approximately $110 billion in unpaid principal balance as of June 30, 2017. On August 28, 2017, the Company entered into a Cooperative Brokerage Agreement and related letter agreement with NRZ. As a result, we expect that over time NRZ would become our largest customer, potentially representing more than 50% of our revenues.
Revenue from Ocwen primarily consists of revenue earned directly from Ocwen and revenue earned from the loans serviced by Ocwen when Ocwen designates us as the service provider. Revenue from Ocwen as a percentage of segment and consolidated revenue was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Mortgage Market	68%	65%	68%	65%
Real Estate Market	1 %	—%	1 %	—%
Other Businesses, Corporate and Eliminations	7 %	25%	11%	24%
Consolidated revenue	58%	56%	58%	56%

For the nine months ended September 30, 2017 and 2016, we generated revenue from Ocwen of $422.1 million and $422.2 million, respectively ($136.4 million and $141.6 million for the third quarter of 2017 and 2016, respectively). Services provided to Ocwen during such periods and reported in the Mortgage Market segment included real estate asset management and sales, residential property valuation, trustee management services, property preservation and inspection services, insurance services, mortgage charge-off collections and certain software applications. Services provided to Ocwen and reported in the Real Estate Market segment included rental property management. Services provided to Ocwen and reported as Other Businesses, Corporate and Eliminations included information technology (“IT”) infrastructure management. As of September 30, 2017, accounts receivable from Ocwen totaled $23.7 million, $18.9 million of which was billed and $4.8 million of which was unbilled. As of December 31, 2016, accounts receivable from Ocwen totaled $26.2 million, $15.8 million of which was billed and $10.4 million of which was unbilled.
We earn additional revenue related to the portfolios serviced by Ocwen when a party other than Ocwen or NRZ selects Altisource as the service provider. For the nine months ended September 30, 2017 and 2016, we recognized revenue of $118.0 million and $146.0 million, respectively ($35.1 million and $48.0 million for the third quarter of 2017 and 2016, respectively), related to the portfolios serviced by Ocwen when a party other than Ocwen or NRZ

selected Altisource as the service provider. These amounts are not included in deriving revenue from Ocwen as a percentage of revenue in the table above.

We earned revenue from NRZ of $0.8 million related to the MSRs transferred by Ocwen to NRZ in the third quarter of 2017. We earned additional revenue of $1.0 million in the third quarter of 2017 related to the MSRs transferred by Ocwen to NRZ when a party other than NRZ selects Altisource as the service provider.

NOTE 3 — ACQUISITION

Granite Acquisition

On July 29, 2016, we acquired certain assets and assumed certain liabilities of Granite Loan Management of Delaware, LLC (“Granite”) for $9.5 million in cash. Granite provides residential and commercial loan disbursement processing, risk mitigation and construction inspection services to lenders. The Granite acquisition is not material in relation to the Company's results of operations or financial position.

The final allocation of the purchase price is as follows:

(in thousands)	
Accounts receivable, net	$1,024
Prepaid expenses	22
Other assets	25
Premises and equipment, net	299
Non-compete agreements	100
Trademarks and trade names	100
Customer relationships	3,400
Goodwill	4,827
	9,797
Accounts payable and accrued expenses	(57)
Other current liabilities	(192)
Purchase price	$9,548

NOTE 4 — AVAILABLE FOR SALE SECURITIES

During the nine months ended September 30, 2016, we purchased 4.1 million shares of RESI common stock for $48.2 million. This investment is classified as available for sale and reflected in the condensed consolidated balance sheets at fair value at the respective balance sheet dates ($46.0 million as of September 30, 2017 and $45.8 million as of December 31, 2016). Unrealized gains and losses on available for sale securities are reflected in other comprehensive income, unless there is an impairment that is other than temporary. In the event that a decline in market value is other than temporary, we would record a charge to earnings and a new cost basis in the investment would be established. During the nine months ended September 30, 2017 and 2016, we earned dividends of $1.9 million and $1.0 million, respectively ($0.6 million for the third quarter of 2017 and no comparative amount for the third quarter of 2016), related to this investment. In addition, during the nine months ended September 30, 2016, we incurred expenses of $3.4 million (no comparative amounts in 2017 and the third quarter of 2016) related to this investment.

NOTE 5 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	September 30, 2017	December 31, 2016
Billed	$ 48,108	$ 58,392
Unbilled	23,951	39,853
	72,059	98,245
Less: Allowance for doubtful accounts	(8,882)	(10,424)
Total	$ 63,177	$ 87,821

Unbilled receivables consist primarily of certain real estate asset management and sales services for which we generally recognize revenue when the service is provided but collect upon closing of the sale, and default management services, for which we generally recognize revenues over the service delivery period but bill following completion of the service. We also include amounts in unbilled receivables that are earned during a month and billed in the following month.

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NOTE 6 — PREPAID EXPENSES AND OTHER CURRENT ASSETS
Prepaid expenses and other current assets consist of the following:

(in thousands)	September 30, 2017	December 31, 2016
Short-term investments in real estate	$ 24,644	$ 13,025
Income taxes receivable	13,219	5,186
Prepaid expenses	7,712	6,919
Maintenance agreements, current portion	4,658	6,590
Litigation settlement insurance recovery	—	4,000
Other current assets	9,647	6,888
Total	$ 59,880	$ 42,608

NOTE 7 — PREMISES AND EQUIPMENT, NET
Premises and equipment, net consists of the following:

(in thousands)	September 30, 2017	December 31, 2016
Computer hardware and software	$ 175,512	$ 164,877
Office equipment and other	12,077	20,188
Furniture and fixtures	13,826	13,997
Leasehold improvements	33,570	33,808
	234,985	232,870
Less: Accumulated depreciation and amortization	(154,162)	(129,397)
Total	$ 80,823	$ 103,473

Depreciation and amortization expense totaled $27.4 million and $27.5 million for the nine months ended September 30, 2017 and 2016, respectively ($8.5 million and $9.2 million for the third quarter of 2017 and 2016, respectively). These expenses are included in cost of revenue for operating assets and in selling, general and administrative expenses for non-operating assets in the accompanying condensed consolidated statements of operations and comprehensive income.

NOTE 8 — GOODWILL AND INTANGIBLE ASSETS, NET
Goodwill
The following is a summary of goodwill by segment:

(in thousands)	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Total
Balance as of September 30, 2017 and December 31, 2016	$ 73,259	$ 10,056	$ 2,968	$ 86,283

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

Intangible assets, net
Intangible assets, net consist of the following:

(in thousands)	Weighted average estimated useful life (in years)	Gross carrying amount September 30, 2017	Gross carrying amount December 31, 2016	Accumulated amortization September 30, 2017	Accumulated amortization December 31, 2016	Net book value September 30, 2017	Net book value December 31, 2016
Definite lived intangible assets:							
Trademarks and trade names	13	$ 15,354	$ 15,354	$ (8,630)	$ (7,724)	$ 6,724	$ 7,630
Customer related intangible assets	10	277,828	277,828	(181,019)	(156,980)	96,809	120,848
Operating agreement	20	35,000	35,000	(13,424)	(12,104)	21,576	22,896
Non-compete agreements	4	1,560	1,560	(799)	(507)	761	1,053
Intellectual property	10	300	300	(108)	(85)	192	215
Other intangible assets	5	3,745	3,745	(1,518)	(955)	2,227	2,790
Total		$ 333,787	$ 333,787	$ (205,498)	$ (178,355)	$ 128,289	$ 155,432

Amortization expense for definite lived intangible assets was $27.1 million and $36.4 million for the nine months ended September 30, 2017 and 2016, respectively ($8.6 million and $11.5 million for the third quarter of 2017 and 2016, respectively). Anticipated annual definite lived intangible asset amortization for 2017 through 2021 is $34.6 million, $26.2 million, $21.8 million, $18.2 million and $12.3 million, respectively.

NOTE 9 — OTHER ASSETS

Other assets consist of the following:

(in thousands)	September 30, 2017	December 31, 2016
Security deposits	$ 5,164	$ 5,508
Restricted cash	4,200	4,127
Maintenance agreements, non-current portion	503	853
Other	701	767
Total	$ 10,568	$ 11,255

NOTE 10 — ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

(in thousands)	September 30, 2017	December 31, 2016
Accounts payable	$ 12,251	$ 8,787
Accrued salaries and benefits	42,312	47,614
Accrued expenses - general	28,789	26,426
Income taxes payable	—	308
Total	$ 83,352	$ 83,135

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

Other current liabilities consist of the following:

(in thousands)	September 30, 2017	December 31, 2016
Unfunded cash account balances	$ 5,054	$ 7,137
Other	5,928	11,924
Total	$ 10,982	$ 19,061

NOTE 11 — LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	September 30, 2017	December 31, 2016
Senior secured term loan	$ 425,067	$ 479,653
Less: Debt issuance costs, net	(3,445)	(4,486)
Less: Unamortized discount, net	(1,246)	(1,622)
Net long-term debt	420,376	473,545
Less: Current portion	(5,945)	(5,945)
Long-term debt, less current portion	$ 414,431	$ 467,600

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of Altisource Portfolio Solutions S.A., entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. Altisource Portfolio Solutions S.A. and certain subsidiaries are guarantors of the term loan (collectively, the “Guarantors”). We subsequently entered into three amendments to the senior secured term loan agreement to increase the principal amount of the senior secured term loan and, among other changes, re-establish the $200.0 million incremental term loan facility accordion, lower the interest rate, extend the maturity date by approximately one year and increase the maximum amount of Restricted Junior Payments (as defined in the senior secured term loan agreement; other capitalized terms, unless defined herein, are defined in the senior secured term loan agreement).

After giving effect to the third amendment entered into on August 1, 2014, the term loan must be repaid in equal consecutive quarterly principal installments of $1.5 million, with the balance due at maturity. All amounts outstanding under the senior secured term loan agreement will become due on the earlier of (i) December 9, 2020 and (ii) the date on which the loans are declared to be due and owing by the administrative agent at the request (or with the consent) of the Required Lenders or as otherwise provided in the senior secured term loan agreement upon the occurrence of any event of default under the senior secured term loan agreement.

In addition to the scheduled principal payments, subject to certain exceptions, the term loan is subject to mandatory prepayment upon issuances of debt, casualty and condemnation events and sales of assets, as well as from a percentage of Consolidated Excess Cash Flow if the leverage ratio is greater than 3.00 to 1.00, as calculated in accordance with the provisions of the senior secured term loan agreement (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). No mandatory prepayments were owed for the nine months ended September 30, 2017.

During the nine months ended September 30, 2017, we repurchased portions of our senior secured term loan with an aggregate par value of $50.1 million at a weighted average discount of 12.2%, recognizing a net gain of $5.4 million on the early extinguishment of debt (repurchased aggregate par value of $24.1 million at a weighted average discount of 7.5%, recognizing a net gain of $1.5 million on the early extinguishment of debt for the third quarter of 2017).

During the nine months ended September 30, 2016, we repurchased portions of our senior secured term loan with an aggregate par value of $51.0 million at a weighted average discount of 13.2%, recognizing a net gain of $5.5 million on the early extinguishment of debt (no repurchases in the third quarter of 2016).

The term loan bears interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate. Adjusted Eurodollar Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Adjusted Eurodollar Rate for the applicable interest period and (y) 1.00% plus (ii) a 3.50% margin. Base Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Base Rate and (y) 2.00% plus (ii) a 2.50% margin. The interest rate at September 30, 2017 was 4.74%.

Term loan payments are guaranteed by the Guarantors and are secured by a pledge of all equity interests of certain subsidiaries as well as a lien on substantially all of the assets of Altisource Solutions S.à r.l. and the Guarantors, subject to certain exceptions.

The senior secured term loan agreement includes covenants that restrict or limit, among other things, our ability to: create liens and encumbrances; incur additional indebtedness; sell, transfer or dispose of assets; make Restricted Junior Payments including share repurchases, dividends and repayment of junior indebtedness; change lines of business; amend material debt agreements or other material contracts; engage in certain transactions with affiliates; enter into sale/leaseback transactions; grant negative pledges or agree to such other restrictions relating to subsidiary dividends and distributions; make changes to our fiscal year and engage in mergers and consolidations.

The senior secured term loan agreement contains certain events of default, including (i) failure to pay principal when due or interest or any other amount owing on any other obligation under the senior secured term loan agreement within five days of becoming due, (ii) material incorrectness of representations and warranties when made, (iii) breach of covenants, (iv) failure to pay principal or interest on any other debt that equals or exceeds $40.0 million when due, (v) default on any other debt that equals or exceeds $40.0 million that causes, or gives the holder or holders of such debt the ability to cause, an acceleration of such debt, (vi) occurrence of a Change of Control, (vii) bankruptcy and insolvency events, (viii) entry by a court of one or more judgments against us in an amount in excess of $40.0 million that remain unbonded, undischarged or unstayed for a certain number of days after the entry thereof, (ix) the occurrence of certain ERISA events and (x) the failure of certain Loan Documents to be in full force and effect. If any event of default occurs and is not cured within applicable grace periods set forth in the senior secured term loan agreement or waived, all loans and other obligations could become due and immediately payable and the facility could be terminated.

As of September 30, 2017, debt issuance costs were $3.4 million, net of $6.8 million of accumulated amortization. As of December 31, 2016, debt issuance costs were $4.5 million, net of $5.8 million of accumulated amortization.

NOTE 12 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(in thousands)	September 30, 2017	December 31, 2016
Deferred revenue	$ 3,369	$ 5,680
Other non-current liabilities	4,427	4,800
Total	$ 7,796	$ 10,480

NOTE 13 — FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The following table presents the carrying amount and estimated fair value of financial instruments and certain liabilities measured at fair value as of September 30, 2017 and December 31, 2016. The following fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

(in thousands)	September 30, 2017				December 31, 2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets:								
Cash and cash equivalents	$114,123	$114,123	$ —	$ —	$149,294	$149,294	$ —	$ —
Restricted cash	4,200	4,200	—	—	4,127	4,127	—	—
Available for sale securities	46,044	46,044	—	—	45,754	45,754	—	—
Liabilities:								
Acquisition contingent consideration	401	—	—	401	376	—	—	376
Long-term debt	425,067	—	399,563	—	479,653	—	474,856	—

Fair Value Measurements on a Recurring Basis
Cash and cash equivalents and restricted cash are carried at amounts that approximate their fair values due to the highly liquid nature of these instruments and were measured using Level 1 inputs.

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Notes to Condensed Consolidated Financial Statements (Continued)

Available for sale securities are carried at fair value and consist of 4.1 million shares of RESI common stock. Available for sale securities are measured using Level 1 inputs as these securities have quoted prices in active markets.
The fair value of our long-term debt is based on quoted market prices. Based on the frequency of trading, we do not believe that there is an active market for our debt. Therefore, the quoted prices are considered Level 2 inputs.
In accordance with ASC Topic 805, Business Combinations, liabilities for contingent consideration are reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. Liabilities for acquisition related contingent consideration were recorded in connection with acquisitions in prior years. We measure the liabilities for acquisition related contingent consideration using Level 3 inputs as they are determined based on the present value of future estimated payments, which include sensitivities pertaining to discount rates and financial projections.
There were no transfers between different levels during the periods presented.
Concentrations of Credit Risk
Financial instruments that subject us to concentrations of credit risk primarily consist of cash and cash equivalents and accounts receivable. Our policy is to deposit our cash and cash equivalents with larger, highly rated financial institutions. The Company derives the largest portion of its revenues from Ocwen (see Note 2 for additional information on Ocwen revenues and accounts receivable balance). The Company mitigates its concentrations of credit risk with respect to accounts receivable by actively monitoring past due accounts and the economic status of customers, if known.
NOTE 14 — SHAREHOLDERS’ EQUITY AND SHARE-BASED COMPENSATION
Share Repurchase Program
On May 17, 2017, our shareholders approved the renewal of the share repurchase program previously approved by the shareholders on May 18, 2016, which replaced the previous share repurchase program. Under the program, we are authorized to purchase up to 4.6 million shares of our common stock, based on a limit of 25% of the outstanding shares of common stock on the date of approval at a minimum price of $1.00 per share and a maximum price of $500.00 per share, for a period of five years from the date of approval. Under the existing and prior programs, we purchased 1.1 million shares of common stock at an average price of $22.48 per share during the nine months ended September 30, 2017 and 1.3 million shares at an average price of $26.94 per share during the nine months ended September 30, 2016 (0.3 million shares at an average price of $23.48 per share for the third quarter of 2017 and 0.5 million shares at an average price of $28.68 per share for the third quarter of 2016). As of September 30, 2017, approximately 3.9 million shares of common stock remain available for repurchase under the program. Our senior secured term loan limits the amount we can spend on share repurchases, which was approximately $403 million as of September 30, 2017, and may prevent repurchases in certain circumstances.
Share-Based Compensation
We issue share-based awards in the form of stock options and restricted shares for certain employees, officers and directors. We recorded share-based compensation expense of $3.2 million and $4.7 million for the nine months ended September 30, 2017 and 2016, respectively ($1.4 million and $1.1 million for the third quarter of 2017 and 2016, respectively). As of September 30, 2017, estimated unrecognized compensation costs related to share-based awards amounted to $9.4 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 2.15 years.
In connection with the January 1, 2017 adoption of FASB ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (see Note 1), the Company made an accounting policy election to account for forfeitures in compensation expense as they occur, rather than continuing to apply the Company’s previous policy of estimating forfeitures. Prior to this accounting change, share-based compensation expense for stock options and restricted shares was recorded net of estimated forfeiture rates ranging from 0% to 40%.
Stock Options

Stock option grants are composed of a combination of service-based, market-based and performance-based options.
Service-Based Options. These options generally vest over three or four years with equal annual vesting and expire on the earlier of ten years after the date of grant or following termination of service. A total of 736 thousand service-based awards were outstanding as of September 30, 2017.

Market-Based Options. These option grants generally have two components, each of which vests only upon the achievement of certain criteria. The first component, which we refer to as “ordinary performance” grants, generally consists of two-thirds of the market-based grant and begins to vest if the stock price is at least double the exercise price, as long as the stock price realizes a compounded annual gain of at least 20% over the exercise price. The remaining third of the market-based options, which we refer to as “extraordinary performance” grants, generally begins to vest if the stock price is at least triple the exercise price, as long as the stock price realizes a compounded annual gain of at least 25% over the exercise price. Market-based awards vest in three or four year installments with the first installment vesting upon the achievement of the criteria and the remaining installments vesting thereafter in equal annual installments. Market-based options generally expire on the earlier of ten years after the date of grant or following termination of service, unless the performance criteria is met prior to termination of service or in the final three years of the option term, in which case vesting will generally continue in accordance with the provisions of the award agreement. A total of 935 thousand market-based awards were outstanding as of September 30, 2017.

Performance-Based Options. These option grants begin to vest upon the achievement of certain specific financial measures. Generally, the awards begin vesting if the performance criteria are achieved; one-third vest on each anniversary of the grant date. For certain other financial measures, awards cliff-vest upon the achievement of the specific performance during the period from 2017 through 2021. The award of performance-based options is adjusted based on the level of achievement specified in the award agreements. If the performance criteria achieved is above threshold performance levels, participants have the opportunity to vest in 70% to 150% of the option grants, depending upon performance achieved. If the performance criteria achieved is below a certain threshold, the award is canceled. The options expire on the earlier of ten years after the date of grant or following termination of service. There were 126 thousand performance-based awards outstanding as of September 30, 2017.

The Company granted 216 thousand stock options (at a weighted average exercise price of $34.07 per share) and 143 thousand stock options (at a weighted average exercise price of $29.22 per share) during the nine